

## Message Text

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PAGE 01 ROME 08409 01 OF 02 091059Z  
ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W  
-----049630 091103Z /16  
O 091000Z MAY 78  
FM AMEMBASSY ROME  
TO SECSTATE WASHDC IMMEDIATE 2601  
USMISSION GENEVA IMMEDIATE

C O N F I D E N T I A L SECTION 1 OF 2 ROME 8409

STADIS////////////////////////////////////

EXDIS

DEPT FOR ASST SEC FRANK (IO) ONLY; GENEVA FOR AMB. VANDEN  
HEUVEL ONLY FROM ASST. SEC. MAYNES

E.O. 11652: GDS  
TAGS: EGEN, UNCTAD  
SUBJECT: DRAFT ACTION MEMORANDUM ON THE COMMON FUND

REF: STATE 113792

1. TEXT VERY GOOD EFFORT. I HAVE, HOWEVER, SOME IMPORTANT STRUCTURAL  
AND LANGUAGE CHANGES TO PROPOSE.

2. THE SECTION ON VOTING IS THE WEAKEST. YOU SHOULD DEVELOP THAT  
SECTION MORE FULLY. THERE FOLLOWS MY SUGGESTED REVISIONS:

BEGIN TEXT:

ISSUE FOR DECISION: WE HAVE REACHED A POINT WHERE WE  
MUST WEIGH AT THE HIGHEST LEVEL THE POLITICAL BENEFITS AND  
COSTS AGAINST THE ECONOMIC BENEFITS AND COSTS OF PRESSING  
HARD TO GAIN AGREEMENT TO A COMMON FUND. AT YOUR STAFF  
MEETING LAST THURSDAY MORNING, YOU EXPRESSED A DESIRE FOR  
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THE U.S. TO PLAY A LEADERSHIP ROLE IN RESOLVING THE DIF-  
FERENCES BETWEEN THE GROUP OF 77 AND THE DEVELOPED COUNTRIES  
ON THE COMMON FUND ISSUE. THIS MEMORANDUM IDENTIFIES THE  
CHANGES IN OUR POSITION THAT WOULD BE NECESSARY.

ESSENTIAL FACTORS: SINCE THE SUSPENSION OF THE COMMON  
FUND NEGOTIATIONS LAST DECEMBER, VARIOUS BILATERAL AND SMALL

GROUP DISCUSSIONS HAVE TAKEN PLACE UNDER THE AEGIS OF UNCTAD SECRETARY GENERAL COREA--TO SEEK A BASIS FOR RESUMING THE NEGOTIATIONS. THIS FAR, THE G-77 INSIST THAT THE FUND MUST CONTAIN (1) SOME DIRECT GOVERNMENT CONTRIBUTIONS FOR FUND FINANCING OF BUFFER STOCKS, AND (2) A SECOND WINDOW TO FINANCE NON-PRICE STABILIZATION OR "OTHER MEASURES" SUCH AS DIVERSIFICATION, RESEARCH AND DEVELOPMENT, AND MARKET PROMOTION. THE GROUP B COUNTRIES (OECD) DISAGREE (THOUGH MANY ARE NOW SHIFTING THEIR POSITION).

THE U.S. TAKES THE POSITION THAT THE FUND SHOULD FINANCE BUFFER STOCKS BY POOLING THE FINANCIAL RESOURCES OF PARTICIPATING INTERNATIONAL COMMODITY AGREEMENTS (ICAs), NOT BY DIRECT CONTRIBUTIONS. THE U.S. ALSO ARGUES THAT THE FUND SHOULD NOT FINANCE OTHER MEASURES EVEN ON A VOLUNTARY BASIS. WE ARGUE EXISTING INTERNATIONAL FINANCIAL INSTITUTIONS AND COMMODITY ORGANIZATIONS ARE ALREADY EFFECTIVELY FINANCING SUCH MEASURES AND COULD EXPAND OPERATIONS TO FILL ANY GAPS THAT MIGHT EXIST.

THERE ARE NOW DIFFERENCES WITHIN THE U.S. GOVERNMENT OVER WHETHER AND WHEN WE SHOULD BE PREPARED TO MODIFY THE U.S. POSITION. THE DIFFERENCES IN VIEW ARE BASED NOT SO MUCH ON TECHNICAL ISSUES AS ON POLITICAL JUDGMENTS--ABOUT THE IMPORTANCE OF THE COMMON FUND ISSUE IN OVERALL NORTH/SOUTH RELATIONS AND THE WILLINGNESS OF CONGRESS TO APPROPRIATE FUNDS FOR A COMMON FUND. LARGE AMOUNTS OF MONEY ARE NOT CONFIDENTIAL

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INVOLVED IN THIS QUESTION SINCE EVEN THE G-77 VERSION OF A COMMON FUND ENVISIONS AN INITIAL U.S. CONTRIBUTION OF ONLY DOLS 125 TO DOLS 150 MILLION--WHICH IS NOT EXCESSIVE IN RELATION TO OUR TOTAL AID BUDGET OR TO WHAT WE MIGHT CONTRIBUTE TO BUFFER STOCKS OF CERTAIN INTERNATIONAL COMMODITY AGREEMENTS. BUT OFFICIALS LIKE SECRETARY BLUMENTHAL FEAR THE CREATION OF ANOTHER FUND--EVEN A SMALL AND VOLUNTARY ONE--COULD WEAKEN CONGRESSIONAL WILLINGNESS TO FUND THE IFI'S.

MEANWHILE, THE DIPLOMATIC SCENE IS SHIFTING. AT THE COMMON FUND NEGOTIATING CONFERENCE LAST NOVEMBER, THE GROUP B COUNTRIES PUT FORWARD A PROPOSAL TO ESTABLISH A COMMON FUND THAT WOULD FACILITATE THE FINANCING OF BUFFER STOCKS BY POOLING THE FINANCIAL RESOURCES OF AUTONOMOUS INTERNATIONAL COMMODITY AGREEMENTS (ICAs). OTHER OECD COUNTRIES, WITH THE PROBABLE EXCEPTION OF THE FRG, NOW SEEM TO BE PREPARED TO INTRODUCE MORE FLEXIBILITY INTO THE GROUP B POSITION BY BEING PREPARED TO CONSIDER A RESTRICTED AMOUNT OF DIRECTLY ASSESSED GOVERNMENT CONTRIBUTIONS OR LOAN GUARANTEES FOR THE FIRST WINDOW (BUFFER STOCK OPERATIONS) AND A LIMITED SECOND WINDOW (FOR "OTHER MEASURES") BASED ON VOLUNTARY

CONTRIBUTIONS. WE CAN EXPECT THE POLITICAL PROFILE OF  
THIS ISSUE TO BE MORE SHARPLY ETCHED IN THE MONTHS AHEAD.  
PARTICULARLY, AS UNCTAD V IN 1979 AND THE SPECIAL  
SESSION IN 1980 APPEAR CLOSER AT HAND, THE POLITICAL  
SALIENCE OF THE COMMON FUND WILL INCREASE.

UNLESS THE U.S. DEVELOPS A MORE FLEXIBLE POSITION  
ON THESE QUESTIONS AS WELL, BASED ON ECONOMIC, AS WELL  
AS POLITICAL, GROUNDS, WE RUN THE RISK OF BEING TOTALLY  
ISOLATED. WE BELIEVE WE CAN DEVELOP HELPFUL CHANGES THAT  
ONE COULD PLAUSIBLY ARGUE WOULD STRENGTHEN THE CAPITAL  
STRUCTURE OF THE COMMON FUND. THEY COULD INCREASE THE  
FUND'S ABILITY TO FACILITATE FINANCING OF BUFFER STOCKS  
AND HELP HOLD COMMODITY PRICES AT MORE STABLE LEVELS, REDUC-  
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ING THE IMPETUS TO INFLATION THAT RESULTS FROM WIDE SWINGS  
IN COMMODITY PRICES. MINIMIZING WIDESPREAD DROPS, AS WELL  
AS RISES, IN COMMODITY PRICES MIGHT ASSURE A MORE PREDICTABLE  
AND STEADY FLOW OF INVESTMENT INTO COMMODITY PRODUCTION,  
WHICH WOULD HAVE LONG-RUN ANTI-INFLATIONARY BENEFITS BY  
REDUCING THE LIKELIHOOD OF SHORTFALLS IN FUTURE SUPPLIES.

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W  
-----049677 091112Z /16

O 091000Z MAY 78  
FM AMEMBASSY ROME  
TO SECSTATE WASHDC IMMEDIATE 2602  
USMISSION GENEVA IMMEDIATE

C O N F I D E N T I A L SECTION 2 OF 2 ROME 8409

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HEUVEL ONLY FROM ASST. SEC. MAYNES

ALTHOUGH THERE ARE SOME ASPECTS OF THE COMMON FUND THAT WILL BE TROUBLESOME TO OUR CONGRESS, WE THINK THAT CONGRESS COULD BE PERSUADED TO SUPPORT A COMMON FUND INSTITUTION DESIGNED TO REDUCE INFLATIONARY TRENDS AND PROVIDE MUTUAL BENEFITS TO BOTH PRODUCING AND CONSUMING COUNTRIES, NOT ANOTHER FOREIGN AID INSTITUTION. MORE FLEXIBILITY WOULD PLACE OURSELVES IN THE CENTER OF GROUP B, IMPROVE OUR CREDIBILITY WITH THE DEVELOPING COUNTRIES, AND BETTER ENABLE US TO RETAIN CONTROL OF THE NEGOTIATING PROCESS.

UNLESS WE TAKE THE LEAD, CONFRONTATION APPEARS LIKELY.

THIS, BILATERAL AND SMALL MULTILATERAL CONSULTATIONS ON THE COMMON FUND WILL PROBABLY INTENSIFY IN COMING WEEKS. SECRETARY-GENERAL COREA OF UNCTAD HAS TAKEN THE LEAD IN TRYING TO WORK OUT A COMPROMISE DEAL. IT IS NOT LIKELY HOWEVER, THAT COREA WILL BE ABLE TO WORK OUT ANY SOLUTION ACCEPTABLE TO US.

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IT IS VERY DIFFICULT FOR THE GROUP OF 77 TO MAKE ANY COMPROMISE MOVES ON ITS OWN, SINCE ITS POSITIONS ARE ALWAYS THE PRODUCT OF CAREFULLY NEGOTIATED COMPROMISES AMONG LDC'S WITH DIVERSE ECONOMIC INTERESTS AND INCOME LEVELS. IT THEREFORE APPEARS THAT THE BEST WAY TO MOVE THE G-77 TOWARD COMPROMISE IN THIS SITUATION IS TO SUGGEST INFORMALLY MODIFICATIONS IN THE GROUP B POSITION AND THE G-77 POSITION THAT WE BELIEVE COULD FORM THE BASIS FOR A PRODUCTIVE FORMAL NEGOTIATING CONFERENCE. OUR WILLINGNESS TO SHOW FLEXIBILITY COULD STRENGTHEN THE HAND OF THE G-77 MODERATES IN PERSUADING THE RADICALS TO MODIFY THE G-77 POSITION.

THE TIMING OF SUCH SUGGESTIONS IS AN IMPORTANT TACTICAL QUESTION. WE THINK WE WOULD HAVE A BETTER CHANCE OF SECURING THE TYPE OF COMMON FUND WE DESIRE IF WE WERE TO WORK TOWARD A STATEMENT OF BASIC PRINCIPLES IN THE PRE-CONFERENCE CONSULTATIONS, RATHER THAN WDWLING FOR THE ELEVENTH HOUR OF A RESUMED NEGOTIATING CONFERENCE. WITHOUT AN AGREEMENT ON BASIC PRINCIPLES PRIOR TO THE RESUMPTION OF A NEGOTIATING CONFERENCE THIS FALL, THE NEGOTIATION OF MOST OF THE VERY MANY TECHNICAL ISSUES CANNOT TAKE PLACE. THE CONFERENCE WILL BE STALEMATED AND POLITICIZED AS DELEGATES HAVE NO SERIOUS NEGOTIATING WORK TO DO.

UPCOMING EVENTS ALSO SUGGEST THE NEED FOR A DIPLOMATIC MOVE SOON. AN OAU SUMMIT, FOR EXAMPLE, WILL TAKE PLACE IN KHARTOUM IN LATE JUNE-EARLY JULY WHERE THE AFIRCANS--

WHICH HAVE THUS FAR BEEN THE MOST RADICAL AND INTRANSIGENT  
ON THIS ISSUE--ARE LIKELY TO STIFFEN THEIR RIGID POSITION  
IF THERE IS NO FORWARD MOVEMENT ON THE COMMON FUND BY THEN.  
THE JAMAICAN MINI-SUMMIT IN LATE MAY OR EARLY JUNE, AS WELL  
AS A MAY SUMMIT AMONG FRANCE AND FRANCOPHONE AFRICAN  
COUNTRIES, MAY PROVIDE A TEMPTATION TO OUR ALLIES TO FURTHER  
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OUTFLANK US TO GAIN POINTS WITH THE LDC'S. FURTHERMORE, IT  
WOULD BE HIGHLY DESIRABLE FOR US TO MAINTAIN A UNIFIED  
APPROACH AND MAKE A POSITIVE STATEMENT ON THE COMMON FUND  
AT THE JULY ECONOMIC SUMMIT IN BONN.

IN ORDER THE TAKE THE LEAD, THE UNITED STATES MUST  
CHANGE ITS POSITION, AT LEAST IN PRINCIPLE, ON SOME OF THE  
KEY ISSUES THAT PREVENT ANY PROGRESS IN THE NEGOTIATIONS.  
WE CANNOT TAKE THE LEAD SO LONG AS THE U.S. IS SEEN AS ONE  
OF THE TWO MOST INFLEXIBLE DEVELOPED COUNTRIES (ALONG WITH  
THE FRG). THE ANNEX TO THIS MEMO (TAB) CONTAINS SOME  
SUGGESTED MODIFICATIONS IN THE GROUP B POSITION WHICH WE  
BELIEVE ARE POLITICALLY DESIRABLE AND ECONOMICALLY SOUND.  
THESE MODIFICATIONS ENTAIL A SMALL AMOUNT OF ASSESSED CON-  
TRIBUTIONS TO THE FIRST WINDOW (FOR BUFFER STOCKS), A  
LIMITED SECOND WINDOW (FOR "OTHER MEASURES") FINANCED THROUGH  
VOLUNTARY CONTRIBUTIONS, AND VOTING AND DECISION-MAKING  
STRUCTURE WHICH BALANCES DC AND LDC INTERESTS. WE WOULD  
PRESENT THIS TO THE G-77 AT AN APPROPRIATE  
TIME IN THE PRE-CONFERENCE CONSULTATIONS AS INDICATIVE OF  
A PACKAGE WHICH WE MIGHT BE ABLE TO ACCEPT. IT WOULD NOT  
BE FORMALLY TABLED AND COULD BE WITHDRAWN IF THE G-77 REJECT  
IT AND CONTINUE TO PUSH US INTO ACCEPTING A COMMON FUND ALONG  
THE LINES OF ITS ORIGINAL PROPOSAL.

NEEDED NOW IS YOUR EARLY JUDGMENT ABOUT THE  
PROPER BALANCE TO BE STRUCK BETWEEN POLITICAL AND ECONOMIC  
CONSIDERATIONS. WE THEREFORE PROPOSE THAT YOU MEET WITH  
UNDER SECRETARIES NEWSOM AND COOPER, OURSELVES, ASSISTANT  
SECRETARY KATZ, AND ASSISTANT SECRETARY BENNET TO REVIEW  
IN DETAIL THE ISSUES POSED IN THIS MEMO.

RECOMMENDATION:

1. THAT YOU CALL THE MEETING RECOMMENDED:

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APPROVE

DISAPPROVE

2. THAT EB ASSISTED BY JIP AND IO BE REQUESTED, IN PREPARATION  
FOR NEXT MEETING, TO PREPARE TECHNICAL COMMENTS ON THE ATTACHED  
ANNEX:

APPROVE

DISAPPROVE

END TEXT.GARDNER

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## Message Attributes

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**To:** STATE GENEVA  
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